

**COUNTY OF SAN BERNARDINO  
SPECIAL DISTRICTS  
COUNTY SERVICE AREA No. 70  
ZONE S-7 - LENWOOD SEWER  
IMPROVEMENTS PROJECT**

**REPORT ON AUDIT**

**JUNE 30, 2005**

**County of San Bernardino Special Districts  
County Service Area No. 70  
Zone S-7 - Lenwood Sewer Improvements Project  
Table of Contents**

	<u>Exhibit</u>	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT		1 - 2
BASIC FINANCIAL STATEMENTS		
<b>Government-Wide Financial Statements</b>		
Statement of Net Assets	A	3
Statement of Activities	B	4
<b>Fund Financial Statements</b>		
Balance Sheet - Governmental Funds	C	5
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	D	6
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	E	7
Statement of Net Assets - Proprietary Fund	F	8
Statement of Revenues, Expenses and Change in Fund Net Assets - Proprietary Fund	G	9
Statement of Cash Flows - Proprietary Fund	H	10
Notes to Financial Statements		11 - 21
<b>Required Supplementary Information</b>	<u>Schedule</u>	
Budgetary Comparison Schedule - Special Revenue Fund (Sewer)	One	22



## ROGERS, ANDERSON, MALODY & SCOTT, LLP

CERTIFIED PUBLIC ACCOUNTANTS

JAY H. ZERCHER, C.P.A.  
ROBERT B. MEMORY, C.P.A.  
PHILLIP H. WALLER, C.P.A.  
BRENDA L. ODLE, C.P.A.  
TERRY P. SHEA, C.P.A.  
KIRK A. FRANKS, C.P.A.

LEENA SHANBHAG, C.P.A.  
NANCY O'RAFFERTY, C.P.A.  
LAURIE K. MARSCHER, C.P.A.  
THOMAS T. PRILL, C.P.A.  
JOSEPH P. WALSH, C.P.A.  
SCOTT W. MANNO, C.P.A.  
JENNY LIU, C.P.A.  
MATTHEW B. WILSON, C.P.A.  
ROBYN B. ROSE, C.P.A.  
BRAD A. WELEBIR, C.P.A.

Board of Supervisors  
County of San Bernardino  
County of San Bernardino Special  
District County Service Area  
Zone S-7 - Lenwood Sewer  
Improvement Project

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the County of San Bernardino Special District County Service Area Zone S-7 - Lenwood Sewer (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2005, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the State Controller's Minimum Audit Requirement for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of San Bernardino Special District County Service Area Zone S-7 - Lenwood Sewer, as of June 30, 2005, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

The budgetary comparison information on page 22 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

#### MEMBERS

AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS  
PCPS THE AICPA ALLIANCE FOR CPA FIRMS

CALIFORNIA SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

The County of San Bernardino Special District County Service Area Zone S-7 - Lenwood Sewer has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

*Rogers, Anderson, Molody & Leatt, LLP*

September 16, 2005

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone S-7 - Lenwood Sewer Improvement Project**  
**Statement of Net Assets**  
**June 30, 2005**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 321,559	\$ 666,744	\$ 988,303
Interest receivable	3,464	2,245	5,709
Internal balances	796,508	(796,508)	-
Due from other governments	-	479,346	479,346
Capital assets	5,191,027	-	5,191,027
	<hr/>	<hr/>	<hr/>
Total Assets	6,312,558	351,827	6,664,385
	<hr/>	<hr/>	<hr/>
<b>LIABILITIES</b>			
Accounts payable	449,969	-	449,969
Due to other governments	233,087	-	233,087
Notes payable	2,246,900	-	2,246,900
	<hr/>	<hr/>	<hr/>
Total Liabilities	2,929,956	-	2,929,956
	<hr/>	<hr/>	<hr/>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	2,944,127	-	2,944,127
Unrestricted	438,475	351,827	790,302
	<hr/>	<hr/>	<hr/>
Total Net Assets	\$ 3,382,602	\$ 351,827	\$ 3,734,429
	<hr/>	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone S-7 - Lenwood Sewer Improvement Project**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2005**

	Governmental Activities	Business-type Activities	Total
<b>EXPENSES</b>			
Depreciation	\$ 1,460	\$ -	\$ 1,460
Professional fees	-	2,040	2,040
Total Program Expenses	1,460	2,040	3,500
<b>PROGRAM REVENUES</b>			
Charges for services	122,437	-	122,437
Net Program Revenue (Expense)	120,977	(2,040)	118,937
<b>GENERAL REVENUES</b>			
Property taxes	1,477	-	1,477
Federal assistance	142,200	2,000,069	2,142,269
Investment earnings	11,398	2,638	14,036
Gain on sale of capital assets	2,069	-	2,069
Other	115,524	-	115,524
<b>TRANSFERS – INTERNAL ACTIVITIES</b>	1,648,840	(1,648,840)	-
Total General Revenues and Transfers	1,921,508	353,867	2,275,375
Change in Net Assets	2,042,485	351,827	2,394,312
<b>Net Assets - beginning</b>	1,340,117	-	1,340,117
<b>Net Assets - ending</b>	\$ 3,382,602	\$ 351,827	\$ 3,734,429

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone S-7 - Lenwood Sewer Improvement Project**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2005**

	SPECIAL REVENUE FUNDS		OTHER GOVERNMENTAL FUND	Total Governmental Funds
	Sewer (SNJ)	AD 01-01 Redemption (RNJ)	AD 2001-01 Collection (SNK)	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 26,599	\$ 232,401	\$ 62,559	\$ 321,559
Interest receivable	1,787	1,283	394	3,464
Due from other funds	796,508	-		796,508
<b>Total Assets</b>	<b>824,894</b>	<b>\$ 233,684</b>	<b>\$ 62,953</b>	<b>\$ 1,121,531</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 449,969	\$ -	\$ -	\$ 449,969
Due to other governments	233,087	-	-	233,087
Notes payable	2,246,900	-	-	2,246,900
<b>Total Liabilities</b>	<b>2,929,956</b>	<b>-</b>	<b>-</b>	<b>\$ 2,929,956</b>
<b>Fund Balances:</b>				
Reserved for:				
Encumbrance	2,528,009	-	-	2,528,009
Unreserved:				
Undesignated (deficit)	(4,633,071)	233,684	62,953	(4,336,434)
<b>Total Fund Balances</b>	<b>(2,105,062)</b>	<b>233,684</b>	<b>62,953</b>	<b>(1,808,425)</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 824,894</b>	<b>\$ 233,684</b>	<b>\$ 62,953</b>	

Amounts reported for *governmental activities* in the statement of net assets  
(Exhibit A) are different because:

Capital assets used in governmental activities are not financial resources and,  
therefore, are not reported in the funds:

\$ 5,191,027

Net Assets of Governmental Activities

\$ 3,382,602

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone S-7 - Lenwood Sewer Improvement Project**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2005**

	SPECIAL REVENUE FUNDS		OTHER GOVERNMENTAL FUND	Total Governmental Funds
	Sewer (SNJ)	AD 01-01 Redemption (RNJ)	AD 2001-01 Collection (SNK)	
<b>REVENUES</b>				
Property taxes	\$ -	\$ 1,477	\$ -	\$ 1,477
Special assessment	-	119,411	3,026	122,437
Federal assistance	142,200	-	-	142,200
Investment earnings	7,019	3,005	1,374	11,398
Other	115,524	-	-	115,524
Total Revenues	264,743	123,893	4,400	393,036
<b>EXPENDITURES</b>				
Capital outlay:				
Improvement to land	2,504,728	-	-	2,504,728
Total Expenditures	2,504,728	-	-	2,504,728
Excess Revenues Over (Under) Expenditures	(2,239,985)	123,893	4,400	(2,111,692)
<b>OTHER FINANCING SOURCES</b>				
Transfers in	1,648,840	-	-	1,648,840
Total Other Financing Sources	1,648,840	-	-	1,648,840
Net Change in Fund Balances	(591,145)	123,893	4,400	(462,852)
<b>Fund Balances - beginning</b>	(1,513,917)	109,791	58,553	(1,345,573)
<b>Fund Balances - ending</b>	<u><u>\$(2,105,062)</u></u>	<u><u>\$ 233,684</u></u>	<u><u>\$ 62,953</u></u>	<u><u>\$ (1,808,425)</u></u>

The accompanying notes are an integral part of these financial statements.



**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone S-7 - Lenwood Sewer Improvement Project**  
**Reconciliation of the Statement of Revenues, Expenditures and**  
**Changes in Fund Balances of Governmental Funds to the**  
**Statement of Activities**  
**For the Year Ended June 30, 2005**

Net Change in Fund Balances - Total Governmental Funds	\$ (462,852)
--	--------------

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$2,504,728) exceeded depreciation expense (\$1,460) in the current period.	2,503,268
---	-----------

In this statement of activities, only the gain on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balances by the cost of the capital assets sold.	<div style="border-top: 1px solid black; margin-top: 5px;">2,069</div>
---	--

Change in Net Assets of Governmental Activities	<div style="border-top: 1px solid black; border-bottom: 3px double black; margin-top: 5px;">\$ 2,042,485</div>
---	--

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone S-7 - Lenwood Sewer Improvement Project**  
**Statement of Net Assets**  
**Proprietary Fund**  
**June 30, 2005**

	ENTERPRISE FUND
	Sewer
<b>ASSETS</b>	
Current Assets:	
Cash and cash equivalents	\$ 666,744
Interest receivable	2,245
Due from other governments	479,346
Total Current Assets	<u>1,148,335</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Due to other funds	<u>796,508</u>
Total Current Liabilities	<u>796,508</u>
<b>NET ASSETS</b>	
Unrestricted	<u>351,827</u>
Total Net Assets	<u><u>\$ 351,827</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone S-7 - Lenwood Sewer Improvement Project**  
**Statement of Revenues, Expenses, and Change in Net Assets**  
**Proprietary Fund**  
**For the Year Ended June 30, 2005**

	ENTERPRISE FUND
	Sewer
<b>OPERATING REVENUES</b>	\$ -
<b>OPERATING EXPENSES</b>	
Professional fees	2,040
Total Operating Expenses	2,040
Operating (Loss)	(2,040)
<b>NONOPERATING REVENUES</b>	
Federal assistance	2,000,069
Investment earnings	2,638
Total Nonoperating Revenues	2,002,707
Income Before Transfers	2,000,667
<b>TRANSFERS OUT</b>	(1,648,840)
Change in Net Assets	351,827
<b>Net Assets – beginning</b>	-
<b>Net Assets – ending</b>	\$ 351,827

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone S-7 - Lenwood Sewer Improvement Project**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**For the Year Ended June 30, 2005**

	<u>ENTERPRISE FUND</u>
	<u>Sewer</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Payments to suppliers	\$ (2,040)
Net Cash (Used for) Operating Activities	<u>(2,040)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATING FINANCING ACTIVITIES</b>	
Federal Assistance	1,520,723
Transfer to other funds	<u>(852,332)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>668,391</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Investment earnings	393
Net Cash Provided by Investing Activities	<u>393</u>
Net Increase in Cash and Cash Equivalents	666,744
<b>Cash and Cash Equivalents Balance – beginning of the year</b>	<u>-</u>
<b>Cash and Cash Equivalents Balance – end of the year</b>	<u><u>\$ 666,744</u></u>
Reconciliation of operating (loss) to net cash (used for)	
operating activities:	
Operating (loss)	\$ (2,040)
Adjustments to reconcile operating (loss) to net cash (used for)	
operating activities:	
Change in assets and liabilities:	
None	-
Net Cash (Used for) Operating Activities	<u><u>\$ (2,040)</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone S-7 - Lenwood Sewer Improvement Project**  
**Notes to Financial Statements**  
**June 30, 2005**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Reporting entity**

The County Service Area (CSA) No. 70 Zone S-7 - Lenwood Sewer Improvements Project was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on December 19, 1977 with the active power of sewer services to the community of Lenwood.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No 70 - Zone S-7 - Lenwood Sewer Improvement Project of the County of San Bernardino and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2005.

**Government-wide and fund financial statements**

The government-wide financial statements (e.g., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the reporting entity. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. *Governmental activities* normally are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

**Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone S-7 - Lenwood Sewer Improvement Project**  
**Notes to Financial Statements**  
**June 30, 2005**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. However, for revenue derived from voluntary non-exchange transactions, such as federal and state grants, the County expanded its definition of "available" to 9 months. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The CSA reports the following major governmental funds:

The *special revenue fund* labeled "Sewer" is the government's primary operating fund. Its accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue fund* labeled "AD 01-01 Redemption" accounts for the collection of property owner approved assessments to pay debt service.

The government reports the following major proprietary fund:

The *enterprise fund* labeled "Sewer" accounts for the activities of the government's sewer services.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone S-7 - Lenwood Sewer Improvement Project**  
**Notes to Financial Statements**  
**June 30, 2005**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

**Deposits and investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (e.g., the current portion of interfund loans) or "advances to/from other funds" (e.g., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All receivables are shown net of an allowance for uncollectibles when applicable.

**Property taxes**

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

**Inventories and prepaid items**

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone S-7 - Lenwood Sewer Improvement Project**  
**Notes to Financial Statements**  
**June 30, 2005**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Capital assets**

Capital assets, which include property, plant and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend asset life is not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Improvements to Land	20 - 45
Equipment	6 - 15

**Fund equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Stewardship, compliance and accountability**

**A. Budgetary information**

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the CSA prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.



**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone S-7 - Lenwood Sewer Improvement Project**  
**Notes to Financial Statements**  
**June 30, 2005**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special CSA's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

**B. Encumbrances**

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

**C. Deficit Fund Balance**

The special revenue fund labeled Sewer has a deficit fund balance at June 30, 2005 of \$2,105,062.

**NOTE 2: CASH AND DEPOSITS**

Cash and cash equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and cash equivalents are shown at the fair value as of June 30, 2005.

See the County of San Bernardino's Comprehensive Annual Financial Report (CAFR) for details of their investment policy and disclosures related to investment credit risk, concentration of credit risk, interest rate risk and custodial credit risk, as required by GASB Statement No. 40.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone S-7 - Lenwood Sewer Improvement Project**  
**Notes to Financial Statements**  
**June 30, 2005**

**NOTE 3: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Construction in progress	\$ 2,676,076	\$ 2,514,951	\$ -	\$ 5,191,027
Total capital assets, not being depreciated	2,676,076	2,514,951	-	5,191,027
Capital assets, being depreciated:				
Equipment	10,223	-	(10,223)	-
Total capital assets, being depreciated	10,223	-	(10,223)	-
Less accumulated depreciation for:				
Equipment	(609)	(1,460)	2,069	-
Total accumulated depreciation	(609)	(1,460)	2,069	-
Total capital assets, being depreciated, net	9,614	(1,460)	(8,154)	-
Governmental activities capital assets, net	<u>\$ 2,685,690</u>	<u>\$ 2,513,491</u>	<u>\$ (8,154)</u>	<u>\$ 5,191,027</u>

**NOTE 4: INTERFUND RECEIVABLES AND PAYABLES**

Interfund receivables and payables at June 30, 2005 are as follows:

Fund	Due to Other Funds	Due from Other Funds
Enterprise fund – Sewer	\$ 796,508	\$ -
Governmental fund – Sewer (SNJ)	-	796,508
	<u>\$ 796,508</u>	<u>\$ 796,508</u>

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone S-7 - Lenwood Sewer Improvement Project**  
**Notes to Financial Statements**  
**June 30, 2005**

NOTE 5: RETIREMENT PLAN

**Plan description**

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the AQMD), were later included, along with the County of San Bernardino (the County), and are collectively referred to as the "Participating Members." The Plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W. Hospitality Lane - 3<sup>rd</sup> floor, San Bernardino, California 92415-0014.

**Fiduciary responsibility**

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2005.

**Funding policy**

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.37% - 12.28% for general members and 10.23% - 14.24% for safety members, of their annual covered salary of which the County pays approximately 7%. County of San Bernardino employer contribution rates are as follows: County General 8.44%, County Safety 18.01%. All employers combined are required to contribute 14.01% of the current year covered payroll. For 2005, the County's annual pension cost of \$141,450,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone S-7 - Lenwood Sewer Improvement Project**  
**Notes to Financial Statements**  
**June 30, 2005**

**NOTE 5: RETIREMENT PLAN**

The County's annual pension cost and prepaid asset, computed in accordance with *GASB 27, Accounting for Pensions by State and Local Governmental Employers*, for the year ended June 30, 2005, were as follows (in thousands):

Annual Required Contribution (County fiscal year basis)	\$ 141,450
Interest on Pension Assets	(34,779)
Adjustment to the Annual Required Contribution	<u>38,135</u>
Annual Pension Cost	144,806
Annual Contributions Made	<u>141,450</u>
Increase/(Decrease) in Pension Assets	(3,356)
Pension Assets, Beginning of Year (As Restated)	<u>848,238</u>
Pension Assets, End of Year	<u><u>\$ 844,882</u></u>

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

<b>Year Ended June 30,</b>	<b>Annual Contributions Made (in thousands)</b>		<b>Percentage Contributed</b>
	<b>SBCERA</b>	<b>County</b>	
2003	\$ 68,361	\$ 59,673	100%
2004	\$ 652,325	\$ 540,106	100%
2005	\$ 161,906	\$ 141,450	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the Bonds) in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2005 is \$439,539,000.

On June 24, 2004, the County issued its County of San Bernardino Pension Obligation Bonds, Series 2004 A (Fixed Rate Bonds), its County of San Bernardino Pension Obligation Bonds, Series 2004 B (Auction Rate Bonds), and its County of San Bernardino Pension Obligation Bonds, Series 2004 C (Index Bonds) in respective aggregate principal amounts of \$189,070,000, \$149,825,000, and \$125,000,000. The Bonds were issued to finance the County's share of the unfunded accrued actuarial liability of the SBCERA. The current amount outstanding at June 30, 2005 is \$463,895,000.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone S-7 - Lenwood Sewer Improvement Project**  
**Notes to Financial Statements**  
**June 30, 2005**

**NOTE 6: FEDERAL AND STATE GRANTS**

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

**NOTE 7: RISK MANAGEMENT**

The CSA is insured through the County's self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability, and workers' compensation claims. Public liability claims are self-insured for up to \$1 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to \$25 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority (EIA) Liability Program II. Workers' compensation claims are self-insured up to \$2 million per occurrence, and covered by CSAC EIA for up to \$10 million for employer's liability, and up to \$50 million for workers' compensation per occurrence. Property damage claims are insured on an occurrence basis over a \$25,000 deductible, and insured with CSAC EIA Property Program.

The County supplements its self-insurance for medical malpractice claims with CSAC EIA, which provides annual coverage on a claim made form basis with a SIR of \$1 million for each claim. Maximum coverage under the policy is \$11.5 million per claim with an additional \$10 million in limits provided by the CSAC EIA General Liability II Program.

All public officials and County employees are insured under a blanket Comprehensive Disappearance, Destruction, and Dishonesty policy covering County monies and securities, also with CSAC EIA with a \$100,000 deductible, and excess limits up to \$10 million per occurrence.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance, and employee dental insurance, which are accounted for in the General Fund. The IBNR and IBNS liabilities stated on the Risk Management Fund's balance sheet are based upon the results of actuarial studies, and include amounts for allocated and unallocated loss adjustment expenses. The liabilities for these claims are reported using a discounted rate of 3.50%. It is the County's practice to obtain actuarial studies on an annual basis.

The County has a risk management investment program agreement with the Bank of New York to finance the self-insured general liability, automobile liability, workers' compensation, and medical malpractice programs. The County's investment in the agreement totaled \$47.3 million at June 30, 2005.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone S-7 - Lenwood Sewer Improvement Project**  
**Notes to Financial Statements**  
**June 30, 2005**

**NOTE 7: RISK MANAGEMENT (continued)**

The total claims liability of \$115.7 million reported at June 30, 2005 is based on the requirements of *GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements, and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2004 and 2005 were:

<b>Fiscal Year</b>	<b>Beginning of Fiscal Year Liability (in thousands)</b>	<b>Current Year Claims and Changes in Estimates (in thousands)</b>	<b>Claims Payments (in thousands)</b>	<b>End of Fiscal Year Liability (in thousands)</b>
2003 - 2004	\$ 93,802	\$ 45,128	\$ (37,221)	\$ 101,709
2004 - 2005	\$ 101,709	\$ 44,309	\$ (30,304)	\$ 115,714

**NOTE 8: NOTE PAYABLE**

In anticipation of a loan from the United States Department of Agriculture, a Loan Anticipation Note was taken out from the U.S. Bank on October 7, 2003 in the amount of \$ 2,246,900 for the purpose of repairing and upgrading the High Desert Estates sewer system. The notes will mature 24 months after delivery but are pre-payable without penalty, and the interest rate is 70% of the U.S. prime rate.

Upon completion of the project, the note will be purchased in its entirety by the United States Department of Agriculture as a loan in the form of a bond issued, at which time the CSA will begin bond payments to the United States Department of Agriculture. As of June 30, 2005, \$2,246,900 has been drawn on this note and the note is due within one year and therefore reported as a current liability in the Statement of Net Assets.

The bonds were issued on September 30, 2005 and purchased by the United States Department of Agriculture. The proceeds of the bonds were used to pay off the U.S. Bank Grant Anticipation Note of \$2,246,900.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone S-7 - Lenwood Sewer Improvement Project**  
**Notes to Financial Statements**  
**June 30, 2005**

NOTE 9:      TRANSFERS IN/OUT

Interfund transfers are transactions used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital projects funds. At June 30, 2005, the CSA made the following interfund transfers in and out:

	<u>Transfers in:</u>
	Governmental Fund -
	Sewer (SNJ)
	<hr/>
<u>Transfers out:</u>	
Enterprise Fund - Sewer	<u><u>\$            1,648,840</u></u>

NOTE 10:      CONTINGENCIES

As of June 30, 2005, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone S-7 - Lenwood Sewer Improvement Project**  
**Budgetary Comparison Schedule**  
**Special Revenue Fund (Sewer)**  
**For the Year Ended June 30, 2005**

	SPECIAL REVENUE FUND			
	Sewer (SNJ)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Federal assistance	\$ -	\$ -	\$ 142,200	\$ 142,200
Investment earnings	-	-	7,019	7,019
Other	-	-	115,524	115,524
Total Revenues	-	-	264,743	264,743
<b>EXPENDITURES</b>				
Capital outlay:				
Improvements to land	4,086,012	4,086,012	2,504,728	1,581,284
Total Expenditures	4,086,012	4,086,012	2,504,728	1,581,284
Excess of Revenues Over (Under) Expenditures	(4,086,012)	(4,086,012)	(2,239,985)	1,846,027
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	3,756,154	3,756,154	1,648,840	(2,107,314)
Net Change in Fund Balance	\$ (329,858)	\$ (329,858)	(591,145)	\$ (261,287)
<b>Fund Balance - beginning</b>			(1,513,917)	
<b>Fund Balance - ending</b>			<u>\$(2,105,062)</u>	